

TOWN OF LAVERNE

June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Members of the Town Board
Town of Laverne, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Laverne, Oklahoma as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.C; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Laverne, Oklahoma, as of June 30, 2014, and the respective changes in modified cash basis financial position, and cash flows, where applicable, thereof for the year then ended in accordance with the basis of accounting described in Note 1.C.

Basis of Accounting

We draw your attention to Note 1.C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

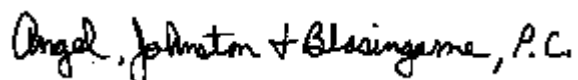
Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Laverne, Oklahoma basic financial statements. The Supplemental Information as listed in the table of contents, are presented for additional analysis and are not a required part of the basic financial statements. The budgetary comparison information, combining non-major governmental fund financial statements, schedule federal and state awards and schedule of debt service coverage compliance are not a required part of the financial statements.

The budgetary comparison information, combining non-major governmental fund financial statements, schedule of federal and state awards and schedule of debt service coverage compliance are the responsibility of management, derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the budgetary comparison information, combining non-major governmental fund financial statements, the schedule of federal and state awards and the schedule of debt service coverage compliance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Chickasha, Oklahoma
March 9, 2015

BASIC FINANICAL STATEMENTS

TOWN OF LAVERNE, OKLAHOMA
Statement of Net Position - Modified Cash Basis
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 393,455	\$ 431,392	\$ 824,847
Investments	141,330	1,457,089	1,598,419
Land and Other Non-depreciable Assets	63,297	18,585	81,882
Other capital assets, net	<u>1,139,292</u>	<u>5,442,445</u>	<u>6,581,737</u>
<i>Total Assets</i>	<u>1,737,374</u>	<u>7,349,511</u>	<u>9,086,885</u>
<u>Liabilities</u>			
Warrants Outstanding	26,138	39,899	66,037
Due to Depositors		68,333	68,333
Long-Term Liabilities:			
Due within one year	29,950	134,007	163,957
Due in more than one year	<u>95,717</u>	<u>3,840,097</u>	<u>3,935,814</u>
<i>Total Liabilities</i>	<u>151,805</u>	<u>4,082,336</u>	<u>4,234,141</u>
<u>Net Position</u>			
Net Investment in Capital Assets	1,076,922	1,486,926	2,563,848
Restricted for Volunteer Fire	71,662		71,662
Restricted for Streets	41,785		41,785
Restricted for Other Purposes	671		671
Unrestricted	<u>394,529</u>	<u>1,780,249</u>	<u>2,174,778</u>
<i>Total Net Position</i>	<u>\$ 1,585,569</u>	<u>\$ 3,267,175</u>	<u>\$ 4,852,744</u>

See accompanying notes to basic financial statements

TOWN OF LAVERNE, OKLAHOMA
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government:							
Governmental Activities:							
Administration	\$ 94,049	\$ 1,973	\$	\$	\$ (92,076)	\$ -	\$ (92,076)
Public Safety	366,113	6,398	33,552		(326,163)	-	(326,163)
Health & Welfare	7,584				(7,584)	-	(7,584)
Culture & Recreation	90,535	5,732	5,986		(78,817)	-	(78,817)
Streets & Transportation	23,878				(23,878)	-	(23,878)
Interest expense	2,507				(2,507)	-	(2,507)
<i>Total Governmental Activities</i>	<u>584,666</u>	<u>14,103</u>	<u>39,538</u>	<u>-</u>	<u>(531,025)</u>	<u>-</u>	<u>(531,025)</u>
Business-Type Activities:							
Electric	1,433,260	1,486,836			-	53,576	53,576
Water	295,283	363,284			-	68,001	68,001
Sewer	85,801	126,842			-	41,041	41,041
Sanitation	194,699	197,273			-	2,574	2,574
<i>Total Business-Type Activities</i>	<u>2,009,043</u>	<u>2,174,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,192</u>	<u>165,192</u>
<i>Total Primary Government</i>	<u>2,593,709</u>	<u>2,188,338</u>	<u>39,538</u>	<u>-</u>	<u>(531,025)</u>	<u>165,192</u>	<u>(365,833)</u>
General Revenues:							
Taxes:							
Sales Tax					309,811		309,811
Use Tax					16,414		16,414
Franchise Tax					11,329		11,329
Intergovernmental Revenue					70,791		70,791
Investment Income					1,330	8,863	10,193
Miscellaneous					(17,195)	31,451	14,256
Transfers - Internal Activity					(44,949)	44,949	-
<i>Total General Revenues and Transfers</i>					<u>347,531</u>	<u>85,263</u>	<u>432,794</u>
<i>Change in Net Assets</i>					(183,494)	250,455	66,961
<i>Net Assets - Beginning - Restated</i>					<u>1,769,063</u>	<u>3,016,720</u>	<u>4,785,783</u>
<i>Net Assets - Ending</i>					\$ <u>1,585,569</u>	\$ <u>3,267,175</u>	\$ <u>4,852,744</u>

See accompanying notes to the basic financial statements

TOWN OF LAVERNE, OKLAHOMA
Balance Sheet
Governmental Funds - Modified Cash Basis
June 30, 2014

	General Fund	Non-Major Governmental Fund	Total Governmental Funds
<u>Assets</u>			
Cash and Cash Equivalents	\$ 204,682	\$ 177,286	\$ 381,968
Investments	141,330		141,330
Deposits with Insurance Pool	11,487		11,487
Due from Other Funds	4,159		4,159
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>361,658</u>	<u>177,286</u>	<u>538,944</u>
<u>Liabilities</u>			
Warrants Outstanding	26,138		26,138
Due to Other Funds		4,159	4,159
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	<u>26,138</u>	<u>4,159</u>	<u>30,297</u>
<u>Fund Balances</u>			
Non Spendable			-
Restricted		114,118	114,118
Committed			-
Assigned		59,009	59,009
Unassigned	335,520		335,520
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	<u>335,520</u>	<u>173,127</u>	<u>508,647</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 361,658</u>	<u>\$ 177,286</u>	<u>\$ 538,944</u>

See accompanying notes to the basic financial statements

TOWN OF LAVERNE, OKLAHOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2014

	General Fund	Non-Major Governmental Fund	Total Governmental Funds
Revenues			
Taxes	\$ 337,554	\$	\$ 337,554
Intergovernmental	58,052	29,247	87,299
Fines and Forfeitures	6,398		6,398
Licenses and Permits	1,973		1,973
Charges for Services	5,732		5,732
Investment Income	984	346	1,330
Miscellaneous	11,826	23,045	34,871
<i>Total Revenues</i>	<u>422,519</u>	<u>52,638</u>	<u>475,157</u>
Expenditures			
Current:			
Administration	87,404		87,404
Police	263,905		263,905
Animal Control	5,906		5,906
Fire/EMS	12,916	41,318	54,234
Library	34,225	5,793	40,018
Parks	28,393		28,393
Airport	5,152		5,152
Streets		8,040	8,040
Capital Outlay	195,919	21,681	217,600
Debt Service	33,840		33,840
<i>Total Expenditures</i>	<u>667,660</u>	<u>76,832</u>	<u>744,492</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>(245,141)</u>	<u>(24,194)</u>	<u>(269,335)</u>
Other Financing Sources (Uses)			
Capital Lease Proceeds	157,000		157,000
Transfers In		2,218	2,218
Transfers Out	(2,218)	(49,999)	(52,217)
<i>Total Other Financing Sources (Uses)</i>	<u>154,782</u>	<u>(47,781)</u>	<u>107,001</u>
<i>Net Change in Fund Balances</i>	(90,359)	(71,975)	(162,334)
<i>Fund Balances - Beginning</i>	<u>425,879</u>	<u>245,102</u>	<u>670,981</u>
<i>Fund Balances - Ending</i>	<u>\$ 335,520</u>	<u>\$ 173,127</u>	<u>\$ 508,647</u>

See accompanying notes to the basic financial statements

TOWN OF LAVERNE, OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds - Modified Cash Basis
June 30, 2014

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$ 508,647
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:	
Capital assets, net of accumulated depreciation	1,202,589
Some liabilities are not due and payable from current financial resources and, therefore are not reported in the funds:	
Capital lease payable	(125,667)
	<hr/>
Net assets of governmental activities	\$ <u><u>1,585,569</u></u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$ (162,334)
Amounts reported for governmental activities on the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	222,100
Depreciation expense	(88,557)
Disposal of capital assets in governmental funds	(29,036)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease principal payments	31,333
Capital lease proceeds	(157,000)
	<hr/>
Change in net assets of governmental activities	\$ <u><u>(183,494)</u></u>

See accompanying notes to the basis financial statements

TOWN OF LAVERNE, OKLAHOMA
Statement of Net Position
Proprietary Funds - Modified Cash Basis
June 30, 2014

	Enterprise Funds		
	Laverne Public Works Authority	Sanitation Fund	Total Proprietary Funds
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 318,339	\$ 40,478	\$ 358,817
Investments	1,141,061	272,000	1,413,061
Due from Other Funds			-
<i>Total Current Assets</i>	<u>1,459,400</u>	<u>312,478</u>	<u>1,771,878</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	72,575		72,575
Restricted Investments	44,028		44,028
Land and Other Non-depreciable Assets	18,085	500	18,585
Other Capital Assets, net of depreciation	5,216,444	226,001	5,442,445
<i>Total Noncurrent Assets</i>	<u>5,351,132</u>	<u>226,501</u>	<u>5,577,633</u>
<i>Total Assets</i>	<u>6,810,532</u>	<u>538,979</u>	<u>7,349,511</u>
<u>Liabilities</u>			
Current Liabilities:			
Warrants Payable	36,308	3,591	39,899
Due to Depositors	68,333		68,333
Notes Payable	134,007		134,007
<i>Total Current Liabilities</i>	<u>238,648</u>	<u>3,591</u>	<u>242,239</u>
Noncurrent Liabilities:			
Notes Payable	3,840,097		3,840,097
<i>Total Noncurrent Liabilities</i>	<u>3,840,097</u>	<u>-</u>	<u>3,840,097</u>
<i>Total Liabilities</i>	<u>4,078,745</u>	<u>3,591</u>	<u>4,082,336</u>
<u>Net Position</u>			
Net Investment in Capital Assets	1,260,425	226,501	1,486,926
Unrestricted	1,471,362	308,887	1,780,249
<i>Total Net Position</i>	<u>\$ 2,731,787</u>	<u>\$ 535,388</u>	<u>\$ 3,267,175</u>

See accompanying notes to the basic financial statements

TOWN OF LAVERNE, OKLAHOMA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds - Modified Cash Basis
For the Year Ending June 30, 2014

	Enterprise Funds		
	Laverne		Total
	Public Works	Sanitation	Proprietary
	Authority	Fund	Funds
Operating Revenues			
Electric revenue	\$ 1,386,287	\$	\$ 1,386,287
Water revenue	363,284		363,284
Sewer revenue	126,842		126,842
Sanitation revenue		197,273	197,273
Pledged Revenue:			
Generator Capacity Payment	100,549		100,549
<i>Total Operating Revenues</i>	<u>1,976,962</u>	<u>197,273</u>	<u>2,174,235</u>
Operating Expenses			
Electric operations	1,328,652		1,328,652
Water operations	227,814		227,814
Sewer operations	74,264		74,264
Sanitation operations		169,033	169,033
Depreciation expense	85,988	25,666	111,654
<i>Total Operating Expenses</i>	<u>1,716,718</u>	<u>194,699</u>	<u>1,911,417</u>
<i>Operating Income (Loss)</i>	<u>260,244</u>	<u>2,574</u>	<u>262,818</u>
Nonoperating Revenues (Expenses)			
Investment income	7,272	1,591	8,863
Interest expense	(97,626)		(97,626)
Miscellaneous	(9,011)		(9,011)
Rental income (net)	40,462		40,462
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(58,903)</u>	<u>1,591</u>	<u>(57,312)</u>
Net Income (Loss) Before Transfers	201,341	4,165	205,506
Transfers In		149,999	149,999
Transfers Out	<u>(105,050)</u>		<u>(105,050)</u>
<i>Change in Net Assets</i>	96,291	154,164	250,455
<i>Net Position - Beginning</i>	2,447,351	381,224	2,828,575
	188,145		188,145
<i>Net Position - Beginning - Restated</i>	<u>2,635,496</u>	<u>381,224</u>	<u>3,016,720</u>
<i>Net Position - Ending</i>	<u>\$ 2,731,787</u>	<u>\$ 535,388</u>	<u>\$ 3,267,175</u>

See accompanying notes to the basic financial statements

TOWN OF LAVERNE, OKLAHOMA
Statement of Cash Flows
Proprietary Funds - Modified Cash Basis
For the Year Ending June 30, 2014

	Enterprise Funds		
	Laverne Public Works Authority	Sanitation Fund	Total Proprietary Funds
Cash Flows From Operating Activities			
Receipts from customers	\$ 1,976,962	\$ 197,273	\$ 2,174,235
Payment to employee	(476,043)	(78,439)	(554,482)
Vendors and others paid	(1,154,687)	(90,594)	(1,245,281)
Depositor decrease	(3,425)	-	(3,425)
<i>Net Cash Provided by Operating Activities</i>	<u>342,807</u>	<u>28,240</u>	<u>371,047</u>
Cash Flows From Noncapital Financing Activities			
Miscellaneous revenues	31,451	-	31,451
Transfers from/to other funds	(100,000)	149,999	49,999
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>(68,549)</u>	<u>149,999</u>	<u>81,450</u>
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	(1,896,038)	(172,647)	(2,068,685)
Transfer from/to other funds	(5,050)	-	(5,050)
Principal Proceeds	1,848,078	-	1,848,078
Principal paid on debt	(119,404)	-	(119,404)
Interest paid on debt	(97,626)	-	(97,626)
<i>Net Cash Provided by (used in) Capital and Related Financing Activities</i>	<u>(270,040)</u>	<u>(172,647)</u>	<u>(442,687)</u>
Cash Flows From Investing Activities			
Interest received	7,272	1,591	8,863
Decrease (increase) in investments	99,080	40,000	139,080
<i>Net Cash Provided by Investing Activities</i>	<u>106,352</u>	<u>41,591</u>	<u>147,943</u>
<i>Net Increase in Cash and Cash Equivalents</i>	110,570	47,183	157,753
<i>Balance - Beginning of the Year</i>	<u>244,036</u>	<u>(10,297)</u>	<u>233,739</u>
<i>Balance - End of the Year</i>	<u><u>354,606</u></u>	<u><u>36,886</u></u>	<u><u>391,492</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	260,244	2,574	262,818
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	85,988	25,666	111,654
Changes in assets and liabilities:			
Due to depositors	(3,425)	-	(3,425)
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 342,807</u></u>	<u><u>\$ 28,240</u></u>	<u><u>\$ 371,047</u></u>
<i>Cash and Cash Equivalents:</i>			
Cash and Cash Equivalents	\$ 390,914	\$ 40,477	\$ 431,391
Warrants Outstanding	(36,308)	(3,591)	(39,899)
<i>Total Cash and Cash Equivalents</i>	<u><u>\$ 354,606</u></u>	<u><u>\$ 36,886</u></u>	<u><u>\$ 391,492</u></u>

See accompanying notes to the basic financial statements

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

The Town's financial reporting entity includes the primary government (Town of Laverne), and its blended component unit. This report includes all activities for which the Town of Laverne's Town Board is fiscally responsible. In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" as amended by GASB 61, and includes all component units for which the Town is financially accountable.

The Town of Laverne – The Town was incorporated in 1913 under provisions of the State of Oklahoma. It operates the Town's public safety, health and welfare, sanitation, streets and highways, culture-recreation, public improvements, planning and zoning and administrative activities.

The Town of Laverne has a population of approximately 1,344 and is located in northwestern Oklahoma. The Town is a town board form of municipal government. The town board is comprised of four elected board members and mayor.

Blended Component Units

Laverne Public Works Authority - The trust was created in 1968 and has as its purpose to finance, develop, and operate the utility services and physical facilities (LPWA).

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authority is created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Board to delegate certain functions to the governing body (Trustees) of the Authority. The Authority generally retains title to assets, which are acquired or constructed with Authority debt, or other Authority generated resources. In addition, the Town has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The Town, as beneficiary of the Public Trust, receives title to any residual assets when the Public Trust is dissolved.

1.B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1.C. Basis of Accounting and Financial Statement Presentation

The government-wide financial statements of the Town are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred. Donated capital assets are recorded at estimated fair market value at the date of donation.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for various functions concerned.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resource measurement thus capital assets and debt is not recorded.

The Town reports the following funds:

Governmental Funds

Major Governmental Funds:

- General Fund - is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Non-Major Governmental Funds:

- Improvement Fund – accounts for funds that have been set aside by the Board for capital improvements.
- Street & Alley Fund – accounts for revenues from state gasoline and vehicle taxes restricted for street projects.
- Grant Fund -- accounts for governmental grant revenues and expenditures.
- Volunteer's Fire Fund – accounts for the volunteer fire activity which include grants and donations for support.

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

Proprietary Funds

Major Enterprise Funds:

- Laverne Public Works Authority – that operates the water, sewer, and electric services of the Town (blended component unit).
- Sanitation Fund -- Included in the proprietary presentation is the sanitation services that are accounted for in the Town's records. Due to its business-type activity it is included with the proprietary funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1.D. Assets, Liabilities and Fund Equity

Deposits and Investments - The Town's cash and cash equivalents are considered to be cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less from the date of acquisition.

The Town does not have a specific policy limiting the concentration amount that may be invested with one issuer. The Town has no formal policy on managing credit risk.

Investments for the Town, as well as for its component units, are reported at fair value.

Oklahoma Statutes authorize the Town to invest in direct obligations of the United States Government, its agencies or instrumentalities: collateralized or insured certificates of deposit of financial institutions located in the state of Oklahoma or fully-insured certificates of deposits located outside the state: savings accounts, and county, municipal or school district general obligation debt.

Public trusts created under Oklahoma Statutes Title 60 are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or indenture.

Deposits with Insurance Pool - Typically past refunds or interest earnings left on deposit with the Workers Compensation Insurance Plan to be disbursed upon instruction by the Town of Laverne. This deposit is held in escrow by the insurance pool and is invested.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits.

Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements - In the government-wide financial statements, capital assets are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2001. Prior to July 1, 2001, governmental proprietary funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2001 are recorded at cost.

TOWN OF LAVERNE, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2014

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Positions. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$1,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Improvements other than buildings	20-30 years
Machinery and equipment	5-12 years
Vehicles	4-6 years
Infrastructure	25-40 years

Fund Financial Statements - In the fund financial statements, capital assets acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Encumbrance Payable – The Town records purchases when the requisition has been issued. The financial statements reflect these as expenses. This method is consistent with the State of Oklahoma budgeting laws.

Warrants Outstanding – The Town handles their payments to vendors and employees using a warrant system rather than checks. This means the warrants do not clear the bank until a treasurer's check is issued to pay for the warrants that have accumulated at the bank. Therefore, they are shown as a liability instead of a reduction to cash.

Meter Deposits Refundable - Represents the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Note issuance costs are deferred and amortized over the life of the debt using the straight-line method.

Compensated Absences – As a result of the use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave and compensatory time earned but unpaid at year-end), are not reflected in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences has been reported as a commitment in Note 4.C.

Fund Balances and Net Assets–

Fund Statements:

Governmental fund equity is classified as fund balance. The Town has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

-
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision-making authority. The Town’s highest level of decision-making authority is made by ordinance while the LPWA’s highest level of decision-making authority is made by resolution.
 - d. Assigned – includes amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town Board action or management decision when the Town Board has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
 - e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the Town’s policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The Town’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund to be spent prior to restricted fund balance. In those funds, interest income is used first before other revenues.

As of June 30, 2014, fund balances are composed of the following:

	General Fund	Street & Alley	Improv. Fund	Grant Fund	Volunteer Fire	Total
Non-spendable	-	-	-	-	-	-
Restricted:	-					-
Street	-	41,785	-	-	-	41,785
Library Grants	-	-	-	671	-	671
Fire Service	-	-	-	-	71,662	71,662
Committed	-	-	-	-	-	-
Assigned:						-
Capital Projects	-	-	1,542	-	-	1,542
Street	-	114	-	-	-	114
Grant Seed Funds	-	-	-	57,353	-	57,353
Unassigned	335,520	-	-	-	-	335,520
Total	335,520	41,899	1,542	58,024	71,662	508,647

Net Assets:

Net Assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.

TOWN OF LAVERNE, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2014

- b. *Restricted Net Assets*– Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the Town’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1.E. Sales Tax Revenue

Sales Tax - The Town presently levies a 2.25% sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The sales tax recorded is allocated one hundred percent to the General Fund.

1.F. Use of Estimates

In preparing the Town of Laverne’s financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

3.A. Deposits and Investments Risk

At June 30, 2014, the reporting entity had the following deposits and investments:

<u>Types of Deposits and Investments</u>		<u>Carrying Value</u>
Deposits:		
Petty Cash		\$ 100
Demand Deposits		182,871
Demand Deposits-Agency Funds		71,509
Savings Accounts		584,940
Pooled Cash OMAG		29,454
Time Deposits		1,554,391
Total Deposits:		<u><u>\$ 2,423,265</u></u>
Investments:		
	<u>Maturities</u>	<u>Credit Rating</u>
		-
		\$ -
Total Deposits and Investments		<u><u>\$ 2,423,265</u></u>

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2014, the Town's bank balances of \$2,392,552 were not exposed to custodial credit risk.

Investment Credit Risk – The Town does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the Town to invest in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposits or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district; and government money market funds regulated by the SEC. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture. The Town's had no marketable investments at June 30, 2014.

Investment Interest Rate Risk – The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Town's only investments are in open ended savings funds with available on demand. All certificates of deposit have maturities no longer than one year. Most certificates are six months or 30 days.

Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer.

3.B. Restricted Cash and Investments

The amounts reported as restricted assets on the Proprietary Fund Statement of Net Position are comprised of restricted amounts due to depositors related to utility deposits and waterline improvements. The restricted assets as of June 30, 2014 were as follows

Types of Restricted Assets	Cash and Cash	
	Equivalents	Investments
Waterline	45,095	-
Customer Utility Deposits	27,481	44,028
Total Restricted Assets	\$ 72,576	\$ 44,028

TOWN OF LAVERNE, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2014

3.C. Capital Assets

Capital asset activity resulting from modified cash basis transactions for the fiscal year ended June 30, 2014 was as follows:

	Balance 6/30/2013	Additions	Disposals	Balance 6/30/2014
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 63,297	\$ -	\$ -	\$ 63,297
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>63,297</u>	<u>-</u>	<u>-</u>	<u>63,297</u>
Capital assets, being depreciated:				
Buildings	1,661,256		(20,435)	1,640,821
Equipment	331,218	9,197		340,415
Vehicles	426,132	212,903	(109,000)	530,035
Infrastructure	<u>233,059</u>	<u>-</u>	<u>-</u>	<u>233,059</u>
Total capital assets, being depreciated	<u>2,651,665</u>	<u>222,100</u>	<u>(129,435)</u>	<u>2,744,330</u>
Less accumulated depreciation for:				
Buildings	956,814	23,394	(2,299)	977,909
Equipment	223,745	21,690		245,435
Vehicles	325,261	34,957	(98,100)	262,118
Infrastructure	<u>111,060</u>	<u>8,516</u>	<u>-</u>	<u>119,576</u>
Total accumulated depreciation	<u>1,616,880</u>	<u>88,557</u>	<u>(100,399)</u>	<u>1,605,038</u>
Total capital assets, being depreciated, net	<u>1,034,785</u>	<u>133,543</u>	<u>(29,036)</u>	<u>1,139,292</u>
Governmental activities capital assets, net	<u>\$1,098,082</u>	<u>\$ 133,543</u>	<u>\$ (29,036)</u>	<u>\$ 1,202,589</u>

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

	Balance 6/30/2013	Additions	Disposals	Balance 6/30/2014
Business-Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 18,585	\$ -	\$ -	\$ 18,585
Construction in progress	1,990,994		(1,990,994)	-
Total capital assets, not being depreciated	<u>2,009,579</u>	<u>-</u>	<u>(1,990,994)</u>	<u>18,585</u>
Capital assets, being depreciated:				
Buildings	5,000		11,832	16,832
Utility property/improvements	146,404	3,852,892	(11,832)	3,987,464
Equipment	1,631,080	38,286		1,669,366
Vehicles	516,951	168,500		685,451
Total capital assets, being depreciated	<u>2,299,435</u>	<u>4,059,678</u>	<u>-</u>	<u>6,359,113</u>
Less accumulated depreciation for:				
Buildings	7,164	592	(1,868)	5,888
Utility property/improvements	10,049	7,378	1,868	19,295
Equipment	442,663	58,748		501,411
Vehicles	345,139	44,936		390,075
Total accumulated depreciation	<u>805,015</u>	<u>111,654</u>	<u>-</u>	<u>916,669</u>
Total capital assets, being depreciated, net	<u>1,494,420</u>	<u>3,948,024</u>	<u>-</u>	<u>5,442,444</u>
Business-type activities capital assets, net	<u>\$ 3,503,999</u>	<u>\$ 3,948,024</u>	<u>\$ (1,990,994)</u>	<u>\$ 5,461,029</u>

Depreciation expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:

Public Safety	\$ 42,068
Health/Welfare	7,584
Administration	6,645
Culture & Recreation	21,574
Streets & Transportation	<u>10,686</u>
Total depreciation expense for governmental activities	<u>\$ 88,557</u>

Business-Type Activities:

Water	\$ 15,131
Sewer	11,537
Electric	59,320
Sanitation	<u>25,666</u>
Total depreciation expense for business-type activities	<u>\$ 111,654</u>

TOWN OF LAVERNE, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2014

3.D. Long-Term Debt

Governmental Activities - State statutes prohibit the Town from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. As of June 30, 2014, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Capital Lease Obligations Payable:

Capital lease-purchase agreement with the Bank of Laverne original issue amount of \$157,000 dated July 25, 2013, for a lease purchase of a 2012 Fire Truck, with an interest rate of 3.1%, payable in five annual installments of \$33,840, final maturity January, 2018. \$ 125,667

Business-Type Activities – As of June 30, 2014, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

Capital Lease Obligations Payable:

Capital lease-purchase agreement with Caterpillar Financial Services Corporation original issue amount of \$1,250,000, dated March 30, 2005, issued by Laverne Public Works Authority, secured by a capacity purchase agreement with the Oklahoma Municipal Power Authority, interest rate of 4.9%, final maturity dated February, 2020. \$ 866,792

OWRB Note Payable:

On December 13, 2013 the Laverne Public Works Authority enter into a water distribution improvement note of \$3,700,000. The interest rate on the Note is 2.56% and matures September 5, 2043. It is secured by the water, sanitary sewer, and electric revenue of the LPWA. \$ 3,107,313

Utility Revenues Pledged

The Town has pledged future revenue from the OMPA dedicated electric capacity payments to repay \$1.25 million in a promissory note to Caterpillar Financial Services Corporation. Proceeds from the lease purchase were used to purchase a 3516 Caterpillar Generator set. The note is payable through 2020. Monthly principal and interest payments on the note are expected to require all the capacity payments. The total principal and interest remaining to be paid on the note is \$866,792. The Town received \$100,549 in capacity payments during the year and the debt service was \$103,025, which is 102% of the pledged revenue.

The Town has pledged future water, sanitary sewer and electric revenue to OWRB to repay the \$3.7 million Note. Proceeds from the Note are being used to make water distribution system improvements. The note is payable through September 15, 2043. The interest and principal remaining on the note is \$4,446,955. The pledged revenue was \$1,756,350. The annual debt service will be \$151,449 or 8.7% of pledged revenue.

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

Long-term liability activity for the year ended June 30, 2014, was as follows:

Government Type Activities	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in one year</u>
Capital Lease Obligations	\$ -	\$ 157,000	\$ (31,333)	\$ 125,667	\$ 29,950
Total Government-Type Activities	<u>\$ -</u>	<u>\$ 157,000</u>	<u>\$ (31,333)</u>	<u>\$ 125,667</u>	<u>\$ 29,950</u>

Business Type Activities:	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due in one year</u>
OWRB Note	\$ 1,320,902	\$ 1,848,078	\$ (61,667)	\$ 3,107,313	\$ 71,248
Capital Lease Obligations	<u>\$ 924,529</u>	<u>\$ -</u>	<u>\$ (57,737)</u>	<u>\$ 866,792</u>	<u>\$ 62,759</u>
Total Business-Type Activities	<u>\$ 2,245,431</u>	<u>\$ 1,848,078</u>	<u>\$ (119,404)</u>	<u>\$ 3,974,105</u>	<u>\$134,007</u>

The annual debt service requirements to maturity on government type activities are as follows:

Business-type Activity Year Ending June 30	<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 29,950	3,890
2016	30,879	2,961
2017	31,836	2,004
2018	<u>33,002</u>	<u>838</u>
	<u>\$ 125,667</u>	<u>9,693</u>

The annual debt service requirements to maturity on business type activities are as follows:

Business-type Activity Year Ending June 30	<u>Capital Lease Obligation</u>		<u>OWRB Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 62,759	41,041	\$ 71,248	59,421
2016	67,131	37,869	72,896	78,553
2017	71,723	34,477	75,014	76,435
2018	76,545	30,855	76,973	74,475
2019	81,608	26,992	78,984	72,465
2019-2024	507,025	33,353	426,591	330,652
2024-2029			485,536	271,707
2029-2034			552,386	204,857
2034-2039			628,441	128,803
2039-2043			<u>639,244</u>	<u>42,275</u>
	<u>\$ 866,791</u>	<u>204,587</u>	<u>\$ 3,107,313</u>	<u>1,339,643</u>

Interest expense was charged to functions as follows in the Statement of Activities:

Business-Type Activities:

Electric	\$ 45,288
Water	<u>52,338</u>

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

Total Business-Type \$ 97,626

3.E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2014 was as follows:

Interfund Transfers:

Transfer Out	Transfer In	Amount	Purpose of Transfer
General Fund	Volunteer Firefighters	\$ 2,218	Reimburse Fires & Meeting
LPWA	Sanitation	\$ 100,000	Operations
Grant	Street	\$ 7,000	Return seed money for grant
Grant	Sanitation	\$ 49,999	Return seed money for grant
Electric	Public Safety	\$ 5,050	Capital Asset
	Total Transfers	<u>\$ 164,267</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 14,268	\$ (59,217)	\$ (44,949)
Enterprise Funds	149,999	(105,050)	44,949
Total	<u>\$ 164,267</u>	<u>\$ (164,267)</u>	<u>\$ -</u>

Reconciliation to Statement of Activities – governmental and business-type activities:

Return of grant seed money to Sanitation	\$ 49,999
Capital Asset	<u>(5,050)</u>
Transfers – Internal Activity	<u>\$ 44,949</u>

Note 4 - Other Notes

4.A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The Town manages these various risks of loss as follows:

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Fire Department Vehicles – Covered through participation in the Risk Management Division of the Department of Central Services, State of Oklahoma self-insurance pool.
- Workers' Compensation – Workers' compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.
- Employee's Group Medical – Covered through purchase of commercial insurance.

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

The Town's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claim reserves and other purposes for the benefit of the Town. Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the Town, and such claims have not exceeded the coverage over the past three years.

4.B. Contingencies

Federal and State Award Programs - The Town of Laverne participates in various federal and state grant/loan programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Litigation - The Town is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accrual or provision for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a Town Sinking Fund for the payment of any court-assessed judgment rendered against the Town. This provision is not applicable to authorities or public trusts. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

4.C. Commitments

Compensated Absences – As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave, compensatory time earned but unpaid at year-end, and banked holiday) are not reflected in the financial statements. Governmental funds obligation for accrued compensated absences is \$4,056 while the General Fund unassigned fund balance exceeds the liability at June 30, 2014. Proprietary funds obligation for accrued compensated absences is \$9,681 while the LPWA unreserved fund balance exceeds this liability at June 30, 2014.

4.D. Employee Pension Plans

The Town of Laverne participates in two pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Municipal Retirement Fund (OMRF) – an agent multiple-employer defined benefit plan

Firefighters' Retirement Plan – Pursuant to the requirements of Title 11, section 22-102, the Town of Laverne participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighter's Pension and Retirement System (OFPRS) on behalf of both paid and volunteer firefighters. The Town has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

The contribution rates for the Town and its employees are established by Statute. The Town is required to contribute \$60 per volunteer for the year ended June 30, 2014. This contribution covers portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage of all taxes on premiums collected by insurance companies and appropriated by the State of Oklahoma.

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

The Town contributed \$1,140 in 2013-14, \$1,200 in 2012-13, and \$1,260 in 2011-12.

Municipal Retirement Plan - The Town of Laverne and its employees participate in an agent multiple employer defined benefit pension plan through the Oklahoma Municipal Retirement Fund (OMRF). All regular full time employees, except those covered under another retirement system, are eligible. Employees are vested at 5 years. The Town's OMRF defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The OMRF System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OMRF, P.O. Box 25848, Oklahoma City, OK 73125 or by calling 1-888-394-6673.

Funding Policy - The contribution requirements of Town of Laverne and employees are established and may be amended by the OMRF board. Employees are required to contribute 3.75% of their annual covered salary. Town of Laverne is required to contribute at an actuarially determined rate; the rate at June 30, 2014 is 11.15% of covered payroll.

Annual Pension Cost - For 2013-2014, the Town of Laverne's annual pension cost of \$61,987 for the OMRF plan was equal to the required and actual contributions. The required contribution was determined as part of the March, 2014 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, and (b) projected salary increases due to age/seniority, compounded annually.

Schedule of Retirement Plan Contributions – OMRF Defined Benefit Plan

<u>Fiscal Year</u>	<u>Actuarial Required Contribution</u>	<u>Percentage Contributed</u>	<u>Pension Benefit Obligation</u>
2011	\$69,160	100%	\$0
2012	\$71,959	100%	\$0
2013	\$64,870	100%	\$0
2014	\$61,987	100%	\$0

Funding Status and Funding Progress – As of January 1, 2014, the most recent actuarial valuation date, the plan was 82.2 percent funded. The actuarial accrued liability for benefits was \$1,033,164 and the actuarial value of assets was \$849,543, resulting in an unfunded actuarial accrued liability (UAAL) of \$183,622 (This compares to a prior year UAAL of \$253,091.). The covered payroll (total annualized rate of pay as of the valuation date based on actual pay for the preceding year) was \$464,745, and the ratio of the UAAL to the covered payroll was 39.5 percent. The Town's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis.

TOWN OF LAVERNE, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2014

4.E. Prior Period Adjustment

Caterpillar Financial Services adjusted the principal balance to reduce interest charge in previous years and in the future from 6.4% to 4.9%. This reduced the principal balance at the beginning of the year by \$188,145.

	<u>Gov't Wide Business-type</u>	<u>Proprietary LPWA</u>
Net Position, beginning balance, as previously stated	\$ 2,828,575	\$ 2,447,351
Decrease in debt balance	<u>188,145</u>	<u>188,145</u>
Net Position, ending balance, as restated	\$ <u>3,016,720</u>	\$ <u>2,635,496</u>

SUPPLEMENTAL INFORMATION

TOWN OF LAVERNE, OKLAHOMA
Budgetary Comparison Schedule
General Fund - Modified Cash Basis
For the Year Ending June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning Budgetary Fund Balance	\$ 369,191	\$ 369,191	\$ 425,879	\$ (56,688)
Resources (Inflows):				
Taxes	364,012	364,012	337,554	26,458
Intergovernmental	38,713	38,713	58,052	(19,339)
Charges for services	7,515	7,515	14,103	(6,588)
Investment income			984	(984)
Miscellaneous	12,542	12,542	11,826	716
Transfers in				-
Total Resources (Inflows)	<u>422,782</u>	<u>422,782</u>	<u>422,519</u>	<u>263</u>
Amounts available for appropriations	<u>791,973</u>	<u>791,973</u>	<u>848,398</u>	<u>(56,425)</u>
Charges to Appropriations (Outflows):				
Personal services	440,000	440,000	322,295	117,705
Maintenance & Operations	255,973	255,973	111,452	144,521
Capital Outlay	96,000	96,000	38,919	57,081
Debt Service			33,840	(33,840)
Transfers out	-	-	2,218	(2,218)
Total Charges to Appropriations	<u>791,973</u>	<u>791,973</u>	<u>508,724</u>	<u>283,249</u>
Ending Budgetary Fund Balance	\$ <u>-</u>	\$ <u>-</u>	\$ <u>339,674</u>	\$ <u>(339,674)</u>
Reconciliation of Budget to Fund Statement				
Capital Lease Proceeds			157,000	
Capital Outlay			(157,000)	
Decrease in OMAG account			(4,154)	
Total General Fund Fund Balance			\$ <u>335,520</u>	

TOWN OF LAVERNE, OKLAHOMA
Notes To Budgetary Comparison Schedule
For the Year Ended June 30, 2014

Budgetary Information

Budget Law - The Town prepares its annual operating budget under the provisions of Titles 62 and 68 of the Oklahoma Statutes (Estimate of Needs). In accordance with those provisions, the following process is used to adopt the annual budget:

- In the first week of August, a financial statement is prepared on State prescribed forms for use in determining cash surplus of the General Fund and other “cash” funds of the Town.
- Using the State prescribed forms, an estimate of appropriation needs of the General Fund is prepared which is limited to no more than 90% of prior year actual recurring revenue plus cash surplus.
- The estimate of need forms are approved by the Town Board of Trustees and submitted to the County Excise Board in August.
- The budget for the General Fund becomes final upon County Excise Board approval.

The General Fund, Debt Service Fund and certain “cash” funds as defined by state law are required to have annual budgets, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. State statutes recognize the following object categories as the minimum legal level of control by department:

- Personal Services
- Maintenance and Operations
- Capital Outlay
- Interfund Transfers

All transfers of appropriations between departments and object categories require approval of the Town Council, and all supplemental appropriations require the approval of the Town Council and the County Excise Board. The budgets for the Special Revenue funds must be submitted on an as needed basis. The Town can only appropriate the cash balance on hand at the beginning of the fiscal year and monies as they are actually received.

The budgetary comparison schedules are reported on a non-GAAP budgetary basis that report revenues on a cash basis and expenditures on a cash basis modified for encumbrances.

TOWN OF LAVERNE, OKLAHOMA
Combining Balance Sheet
Non-major Governmental Funds - Modified Cash Basis
June 30, 2014

	<u>Street & Alley</u>	<u>Improvement Fund</u>	<u>Grant Fund</u>	<u>Volunteer Fire Fund</u>	<u>Total Non-major Govenmental Funds</u>
<u>Assets</u>					
Cash and Cash Equivalents	\$ 46,058	\$ 1,542	\$ 58,024	\$ 71,662	\$ 177,286
Due from Other Funds					-
<i>Total Assets</i>	<u>46,058</u>	<u>1,542</u>	<u>58,024</u>	<u>71,662</u>	<u>177,286</u>
<u>Liabilities</u>					
Due to Other Funds	<u>4,159</u>				<u>4,159</u>
<i>Total Liabilities</i>	<u>4,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,159</u>
<u>Fund Balances</u>					
Non Spendable					-
Restricted	41,785		671	71,662	114,118
Committed					-
Assigned	114	1542	57,353		59,009
Unassigned					
<i>Total Fund Balances</i>	<u>41,899</u>	<u>1,542</u>	<u>58,024</u>	<u>71,662</u>	<u>173,127</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 46,058</u>	<u>\$ 1,542</u>	<u>\$ 58,024</u>	<u>\$ 71,662</u>	<u>\$ 177,286</u>

TOWN OF LAVERNE, OKLAHOMA
Combining-Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2014

	Street & Alley	Improvement Fund	Grant Fund	Volunteer Fire Fund	Total Non-major Governmental Funds
Revenues					
Taxes	\$	\$	\$	\$	\$ -
Intergovernmental	12,739		12,034	4,474	29,247
Fines and Forfeitures					-
Licenses and Permits					-
Charges for Services					-
Investment Income	114			232	346
Miscellaneous			15	23,030	23,045
<i>Total Revenues</i>	<u>12,853</u>	<u>-</u>	<u>12,049</u>	<u>27,736</u>	<u>52,638</u>
Expenditures					
Current:					
Administration					-
Police					-
Fire/EMS				41,318	41,318
General Government					-
Library			5,793		5,793
Parks					-
Streets	8,040				8,040
Capital Outlay				21,681	21,681
Debt Service					-
<i>Total Expenditures</i>	<u>8,040</u>	<u>-</u>	<u>5,793</u>	<u>62,999</u>	<u>76,832</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>4,813</u>	<u>-</u>	<u>6,256</u>	<u>(35,263)</u>	<u>(24,194)</u>
Other Financing Sources (Uses)					
Transfers In				2,218	2,218
Transfers Out			(49,999)		(49,999)
Inter-account Transfers Out					-
Inter-account Transfers In	7,000		(7,000)		-
<i>Total Other Financing Sources (Uses)</i>	<u>7,000</u>	<u>-</u>	<u>(56,999)</u>	<u>2,218</u>	<u>(47,781)</u>
<i>Net Change in Fund Balances</i>	11,813	-	(50,743)	(33,045)	(71,975)
<i>Fund Balances - Beginning</i>	<u>30,086</u>	<u>1,542</u>	<u>108,767</u>	<u>104,707</u>	<u>245,102</u>
<i>Fund Balances - Ending</i>	\$ <u>41,899</u>	\$ <u>1,542</u>	\$ <u>58,024</u>	\$ <u>71,662</u>	\$ <u>173,127</u>

TOWN OF LAVERNE, OKLAHOMA
Schedule of Federal and State Awards
Modified Cash Basis
For the Year Ending June 30, 2014

<u>Grantor/Program Title</u>	<u>Award Amount</u>	<u>Prior Year Revenues</u>	<u>Current Year Revenues</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
Federal Awards:					
Safe Drinking Water State Revolving Fund	\$ <u>326,000</u>	<u> </u>	<u>326,000</u>	<u> </u>	\$ <u>326,000</u>
Total Federal Awards	\$ <u><u>326,000</u></u>	<u><u> </u></u>	<u><u>326,000</u></u>	<u><u> </u></u>	\$ <u><u>326,000</u></u>
State Awards:					
Safe Drinking Water State Revolving Fund	\$		1,522,078		\$ 1,522,078
Okla Dept of Libraries- Sate Aide 2013		5,449		1,830	3,619
Okla Dept of Libraries- Sate Aide 2014			5,454		5,115
Okla Dept of Libraries E-material		1,932		1,835	
Okla Dept of Ag. Rural Fire Grant		-	6,048	6,048	
Okla Dept of Ag. Operations Grant			4,474		4,474
Lego Grant - 14			532		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total State Awards	\$ <u><u>-</u></u>	<u><u>7,381</u></u>	<u><u>1,538,586</u></u>	<u><u>9,713</u></u>	\$ <u><u>1,535,286</u></u>

See accompanying notes to the basic financial statements.

TOWN OF LAVERNE, OKLAHOMA
Schedule of Debt Service Coverage Compliance
For the Year Ending June 30, 2014

	Series 2012 DWSRF Promissory Note
Gross Revenue Available:	
Operating Revenue (1)	1,976,962
Investment Income	7,224
Net Rental Revenue	<u>40,461</u>
Total Gross Revenue Available	<u>2,024,647</u>
 Operating Expenses:	
Operating Expenses	(1,630,730)
Generator Expenses	<u>(9,011)</u>
Total Operating Expenses	<u>(1,639,741)</u>
 Net Revenues Available for Debt Service	 <u><u>\$ 384,906</u></u>
 Maximum Annual Debt Service Payable from Revenues of the System	 <u><u>\$ 151,449</u></u>
Computed Coverage	<u><u>254%</u></u>
Coverage Requirement	<u><u>125%</u></u>

(1) Operating revenues include water, electricity and sewer.

INTERNAL CONTROL AND COMPLIANCE REPORT



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE ACCOMPANYING FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Town Council
Town of Laverne, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Laverne, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 9, 2015. The report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Management Discussion and Analysis is not presented as required by the Governmental Accounting Standards Board.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies, or material weaknesses and therefore, significant deficiencies, or material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 14-1, 14-2, 14-3, 14-4, 14-5, 14-6 and 14-7.

Compliance and Other Matters

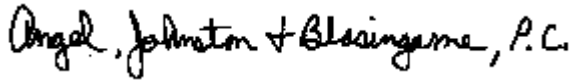
As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and responses as items: 14-4, 14-6 and 14-7.

Town of Laverne's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Laverne's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in compliance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.



Chickasha, Oklahoma
March 9, 2015

TOWN OF LAVERNE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014

Deficiencies of Internal Control, Compliance and Other Matters

- 14-1. Criteria – All employees' vacation and sick leave accrued and used should be tracked.

Condition – There is no formal procedures for tracking paid time off. If requested the payroll clerk goes through time cards to determine if any is available.

Cause – Lack of procedures to monitor appropriate balances.

Effect – Employees could be given too much or too little vacation and/or sick leave.

Recommendation – Establish a procedure to monitor activity to track all employees' vacation and sick leave used and remaining unused balances.

Management response – Management agrees. They have been keeping track of sick and vacation on a ledger pad. They are in the process of transferring days to an excel spread sheet.

- 14-2. Criteria – Per the Employee Handbook all sick leave accrued and taken should be tracked for all employees.

Condition – Exempt employees' sick leave is not being tracked.

Cause – It appears a misunderstanding of how exempt employees are treated since they are not required to keep a time sheet.

Effect – Potential for exempt employees given too much or too little sick leave.

Recommendation – Establish a procedure to monitor and track all employees' sick leave used and remaining unused balance.

Management response – Management agrees. They will start immediately tracking all employees, including exempt.

- 14-3. Criteria – Although many of the pay raises and adjustments are approved in the minutes a pay rate sheet, with proper signed approval, should be prepared and maintained for all employees.

Condition – The payroll clerk is not maintaining a record on file of the pay rate changes for employees.

Cause – Lack of procedures to establish appropriate documentation of payroll changes.

Effect – Potential for under or over paid employees exist without proper documentation.

Recommendation – All raises should have independent documented rate change forms.

Management response – Management agrees. They have created a pay rate sheet and will have the Mayor, Town Superintendent and the employee sign. This will include the amount of the change and the reason for the rate increase/decrease.

TOWN OF LAVERNE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014

- 14-4. Criteria – Per IRS regulations all compensation received by an employee should be ran through the payroll system with appropriate taxes withheld and reported on the employees W-2 at year end.

Condition – We discovered during our audit the bonuses paid to employees, during the fiscal year 2013-14, were not ran through the payroll system.

Cause – Lack of understanding or disregard of IRS regulations.

Effect – Not reporting all employee compensation as payroll could result in federal and state payroll penalties.

Recommendation – All bonuses and other types of compensation to employees should be treated as payroll and paid through the payroll system.

Management response – Management agrees. They understand that bonuses and all pay has to be reported through payroll. This has currently been adopted.

- 14-5. Criteria – Amounts reported in the payroll system should agree with amounts in the general ledger system.

Condition – The payroll history report could not be reconciled with the general ledger in the accounting system.

Cause – The payroll and accounting software systems are independent of each other and the payroll checks have to be manually entered into the accounting system. There is not a reconciliation of the amounts being entered into the accounting system.

Effect – Potential errors may occur in the amounts reported for personal services.

Recommendation – Reconciliation on amounts manually entered from the payroll system to the accounting system should be done.

Management response – Management agrees and has purchased new software that integrates the payroll and accounting systems. They intend to implement soon.

- 14-6. Criteria – Purchasing procedures according to state statute should include initiating the purchase with a purchase order and formal acknowledgement procedure for evidencing receipt of goods or services.

Condition – During our testing of purchasing procedures we noted all but one of the purchase orders were dated after the invoice date.

Cause – Lack of understanding and implementing purchasing procedures per state statutes.

Effect – Violation of statutes and possible breakdown in the budget control activities.

Recommendation – Re-enforce the correct procedure and provide training if necessary.

Management response – Management agrees. They are now creating purchase orders as soon as the number is given to ensure the purchase orders are created before the invoice date.

TOWN OF LAVERNE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014

- 14-7. Criteria – The state statutes require the Town adopt and annual budget and not exceed the expenditures budgeted by function.

Condition – During the year there was no budget set up for debt service or transfers out. There were expenses in these categories.

Cause – These expenses are not separately budget but they do occur.

Effect – Violation of statutes and possible breakdown in the budget control activities.

Recommendation – We recommend the establishment of budget categories for debt service and transfers.

Management response – Management agrees. They have created an excel spread sheet for the budget and that is broken down between account, personal services, capital outlay and repairs/maintenance.

**TOWN OF LAVERNE, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2014**

Deficiencies of Internal Control, Compliance and Other Matters

- 13-1. Criteria – Documentation of time worked by employees needs to be reviewed and retained.
- Condition – Several timesheets could not be located and the ones located did not have approval of a supervisor.
- Disposition – This was not noted as a problem in the 2013-14 year.
- 13-2. Criteria – All employees vacation and sick leave should be tracked.
- Condition – Exempt employees vacation and sick leave is being tracked.
- Disposition – This continues to be an issue in the 2013-14 year.
- 13-3. Criteria – Employee payment histories should be retained.
- Condition – Several former employees have been deleted from the computer system.
- Disposition – This was not noted as a problem in the 2013-14 year.
- 13-4. Criteria – Pay raises and adjustments should be documented for all employees.
- Condition – The town supervisor and former town clerk received raises but no documentation could be found in board minutes or in the payroll files.
- Disposition – This continues to be an issue in the 2013-14 year.
- 13-5. Criteria – Purchasing procedures according to state statute should include initiating the purchase with a purchase order and formal acknowledgement procedure for evidencing receipt of goods or services.
- Condition – There were 3 unsigned purchase orders, 12 purchases with evidence or receipt verification and 5 purchase orders dated after the invoice date.
- Disposition – This continues to be an issue in the 2013-14 year.
- 13-6. Criteria – Davis-Bacon Act requires wages to be paid at the authorized prevailing rate.
- Condition – There were two interviewed employees that were noted at a pay rate below the prevailing rate for their work classification.
- Disposition – This compliance issue was not audited in the 2013-14 year.